

CITY OF HUDSON

**INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS
SUPPLEMENTARY AND OTHER INFORMATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

JUNE 30, 2015

Table of Contents

		<u>Page</u>
Officials		3
Independent Auditor's Report		4-6
Management's Discussion and Analysis		7
Basic Financial Statements:	<u>Exhibit</u>	
Government-wide Financial Statement:		
Cash Basis Statement of Activities and Net Position	A	8-9
Governmental Fund Financial Statements:		
Statement of Cash Receipts, Disbursements and Changes in Cash Balances	B	10-11
Reconciliation of the Statement of Cash Receipts, Disbursements and Changes in Cash Balances to the Statement of Activities and Net Position	C	12
Proprietary Fund Financial Statements:		
Statement of Cash Receipts, Disbursements and Changes in Cash Balances	D	13
Reconciliation of the Statement of Cash Receipts, Disbursements and Changes in Cash Balances to the Cash Basis Statement of Activities and Net Position	E	14
Notes to Financial Statements		15-26
Other Information:		
Budgetary Comparison Schedule of Receipts, Disbursements and Changes in Balances - Budget and Actual (Cash Basis) - All Governmental Funds and Proprietary Funds		28-29
Notes to Other Information - Budgetary Reporting		30
Schedule of the City's Proportionate Share of the Net Pension Liability		31
Schedule of City Contributions		32-33
Notes to Other Information-Pension Liability		34-35
Supplementary Information:	<u>Schedule</u>	
Statement of Cash Receipts, Disbursements and Changes in Cash Balances - Nonmajor Governmental Funds	1	37-38
Statement of Cash Receipts, Disbursements and Changes in Cash Balances-Nonmajor Proprietary Funds	2	39
Schedule of Indebtedness	3	40-41
Bond and Note Maturities	4	42
Schedule of Receipts by Source and Disbursements by Function - All Government Funds	5	43-44
Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <u>Government Auditing Standards</u>		46-47
Schedule of Findings and Questioned Costs		49-51
Staff		52

City of Hudson

Officials

Kevin Launderville	Mayor	Dec 2015
Brad Ingamells	Council Member	Dec 2015
Mark Evers	Council Member	Dec 2015
Jerry Volker	Council Member	Dec 2015
Kate Wyatt	Council Member	Dec 2017
Gail Bunz	Council Member	Dec 2017
Richard Hansen	Attorney	Thru February 2015
Heather Prendergast	Attorney	Start March 2015

City of Hudson

RFSW Ridihalgh Fuelling
Snitker Weber & Co.
C E R T I F I E D P U B L I C A C C O U N T A N T S

James R. Ridihalgh, C.P.A.
Gene L. Fuelling, C.P.A.
Donald A. Snitker, C.P.A.
Jeremy P. Lockard, C.P.A.

14 East Charles St, PO Box 639
Oelwein, IA 50662
(319)283-1173
Fax (319)283-2799

Independent Auditor's Report

To the Honorable Mayor and
Members of the City Council:

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Hudson, Iowa, as of and for the year ended June 30, 2015, and the related Notes to the Financial Statements, which collectively comprise the City's basic financial statements listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the cash basis of accounting described in Note 1. This includes determining the cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. This includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the City's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Hudson as of June 30, 2015, and the respective changes in cash basis financial position for the year then ended in accordance with the basis of accounting described in Note 1.

Basis of Accounting

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a basis of accounting other than U. S. generally accepted accounting principles. Our opinions are not modified with respect to this matter.

Emphasis of a Matter

As disclosed in Note 4 to the financial statements, the City of Hudson adopted new accounting guidance related to Governmental Accounting Standards Board (GASB) Statement No. 68, Accounting and Financial Reporting for Pensions. Our opinions are not modified with respect to this matter.

Other Matters

Supplementary and Other Information-Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Hudson's basic financial statements. We previously audited, in accordance with the standards referred to in the third paragraph of this report, the financial statements for the ten years ended June 30, 2014 (which are not presented herein) and expressed unqualified opinions on those financial statements which were prepared on the basis of cash receipts and disbursements. The supplementary information included in Schedules 1 through 5, is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the basic financial statements themselves, and other additional procedures in accordance with U.S. generally accepted auditing standards. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The other information, Management's Discussion and Analysis, the budgetary comparison information, The Schedule of the City's Proportionate Share of the Net Pension Liability and the Schedule of City Contributions on page 7 and pages 28 through 29, has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated September 18, 2015 on our consideration of the City of Hudson's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the City of Hudson's internal control over financial reporting and compliance.

Ridihalgh, Fuelling, Snitker, Weber & Co., P.C.

Ridihalgh, Fuelling, Snitker, Weber & Co., P.C.

September 18, 2015

MANAGEMENT DISCUSSION AND ANALYSIS

The City of Hudson provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2015. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

2015 FINANCIAL HIGHLIGHTS

- The City's revenues increased by \$289,270 from fiscal year 2014 to fiscal year 2015. Receipts in the City's governmental funds increased by \$101,548, receipts in the City's proprietary funds increased by \$132,061.
- Disbursements decreased \$313,410 overall from fiscal year 2014. Expenses in the governmental funds decreased by \$119,860 and decreased expenses in the proprietary funds were \$342,738. The variables in governmental and business funds spending reflect a completion of projects and purchase of equipment from reserves.
- The City's total cash basis net assets decreased \$830,023 from fiscal year 2014 to fiscal year 2015 to a total of \$1,384,360. The decrease in the cash basis reflects expenditures on the capital projects and purchase of a JD tractor.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the City's financial activities.

The Government-wide Financial Statement consists of a Statement of Activities and Net Assets. This statement provides information about the activities of the City as a whole and presents an overall view of the City's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report the City's operations in more detail than the government-wide statement by providing information about the most significant funds.

Notes to financial statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the City's budget for the year.

Other Supplementary Information provides detailed information about the non-major governmental funds.

BASIS OF ACCOUNTING

The City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not

present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles. Therefore, when reviewing the financial information and discussion within this annual report, the reader should keep in mind the limitations resulting from the use of the cash basis of accounting.

REPORTING THE CITY'S FINANCIAL ACTIVITIES

Government-wide Financial Statement

One of the most important questions asked about the City's finances is, "Is the City as a whole, better off or worse off, as a result of the year's activities?" The Statement of Activities and Net Assets reports information which helps answer this question.

The Statement of Activities and Net Assets presents the City's net assets. Over time, increases or decreases in the City's net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The Statement of Activities and Net Assets is divided into two kinds of activities:

- Governmental Activities include public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service and capital projects. Property tax and state and federal grants finance most of these activities.
- Business Type Activities include the water utility, sanitary sewer system, storm water fund and the solid waste disposal funds. These activities are financed primarily by user charges.

Fund Financial Statements

The City has two kinds of funds:

- 1) Governmental funds account for most of the City's basic services. These focus on how money flows into and out of those funds, and the balances at year-end that are available for spending. The governmental funds include: 1) the General Fund, including the Rural Fire Fund, 2) the Special Revenue Funds, such as Road Use Tax and Tax Increment Financing Fund, 3) the Debt Service Fund, and 4) the Capital Projects Fund. Further, governmental fund financial statements classify cash basis fund balances as 1) Non-spendable, 2) Restricted, 3) Assigned, or 4) Unassigned. The governmental fund financial statements provide a detailed, short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

The required financial statements for governmental funds include a statement of cash receipts, disbursements, and changes in cash balances.

- 2) Proprietary funds account for the City's Enterprise Funds and for the Internal Service Fund. Enterprise Funds are used to report business type activities. The City maintains four Enterprise Funds to provide separate information for the Water, and Sewer funds, considered to be major funds of the City, and Solid Waste Disposal and Storm Water Funds considered to be non-major funds of the City. The City of Hudson no longer has an electric utility; however, in 2015 a balance remained within the fund. Internal Service funds are an

accounting device used to accumulate and allocate costs internally among the City's various functions. The City of Hudson utilizes no internal service funds.

- 3) The required financial statements for proprietary funds include a statement of cash receipts, disbursements and changes in cash balances. Reconciliations follow the fund financial statement process.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities decreased from a year ago, from \$2.214 million to \$1.384 million. The analysis that follows focuses on the changes in cash balances for *governmental activities*. Changes in Cash Basis Net Assets of Governmental Activities

	(Expressed in Thousands)			
	Year Ended June 30, 2015			
Description	2015	% of Total	2014	% of Total
Receipts and transfers:				
Program Receipts				
Charges for Services	57	2%	75	4%
Miscellaneous	103	4%	106	5%
General Receipts:				
Property Tax	1,094	48 %	918	46%
Tax Increment Financing	86	4%	84	4%
Other City Taxes	279	12%	293	15%
Licenses & Permits	61	3%	82	4%
Use of Money & Property	297	13%	68	3%
Intergovernmental	321	14%	383	19%
Total Receipts	\$2,298	100%	\$2,009	100%
Disbursements:				
Public Safety	444	16%	499	17%
Public Works	297	11%	394	13%
Health and Social Services	2	0%	3	0%
Culture and Recreation	308	11%	343	11%
Community & Econ Devel	70	3%	37	1%
General Government	378	14%	276	9%
Debt Service	433	16%	69	2%
Capital Projects	785	29%	1,440	47%
Total Disbursements	\$2,717	100%	\$3,031	100%
Excess if receipts over disbursements	(419)		(1,021)	
Total other financing sources	(411)		495	
Increase in cash basis net assets	(830)		(527)	
Cash basis net assets beg. of year	2,214		2,741	
Cash basis net assets end of year	1,384		2,214	

The City's total receipts and transfers for governmental activities increased by \$289,270. The total cost of all programs and services decreased by \$602,680, with no new programs added this year.

The City did increase general fund property tax rates for 2015. The City of Hudson increased property tax by \$178,491. The City had governmental funds borrowed balance in fiscal 2015 equaling \$4.906 million including the existing balance for 2011 General Obligation Bond of \$4.075 million, 2013 General Obligation Bond of \$.795 million and bank loan/tractor of \$.036 million.

The costs of all governmental activities this year was \$2.717 million compared to \$3.030 million last year. Overall the City's governmental program receipts decreased in 2015 from approximately \$243,759 to \$0. Total business type activity receipts, debt proceeds and transfers between accounts for the fiscal year were \$750,637 compared to \$893,911 last year. Total disbursements and transfers for the fiscal year were \$410,956 compared to \$2,535,429 last year.

Changes in Cash Basis Net Assets of Business Type Activities (Expressed in Thousands) Year Ended June 30, 2015				
Description	2015	% of Total	2014	% of Total
Receipts and transfers:				
Program Receipts				
Charges for Services				
Water	378	27%	316	41%
Sewer	319	23%	256	34%
Non-major	197	14%	179	24%
General Receipts:				
Unrestricted interest on investments	0	0%	11	1%
Miscellaneous & Debt Proceeds	0	0%	0	0%
Other and Transfers in	499	36%	0	0%
Total Receipts	1,393	100%	762	100%
Disbursements:				
Water	282	47%	364	39%
Sewer	172	29%	447	48%
Non-major	142	24%	129	13%
Total Disbursements	596	100%	940	100%
Transfers Out	-89		448	
Increase (Decrease) in cash balance	708		-626	
Cash basis net assets beginning of year	-69		557	
Cash basis net assets end of year	640		-69	

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

- The Tax Increment Finance (TIF) Fund was established to account for a major urban renewal project within the City's business district. The cash balance in the TIF Fund was \$86,372, an increase of \$2,623 over the 2014 fund balance of \$83,749. A Northern Tier Commercial Urban Renewal Area was established by the City of Hudson in fiscal year 2010 with no revenues or expenses certified.
- The Debt Service Fund was supported by transfers in of \$88,600 from the Water Fund. No property taxes were levied to pay down general obligation bonds. A GO Obligation Debt Series 2011 was issued on September 15, 2011 in the amount of \$4.815 million; a GO Obligation Debt

Series 2013 was issued on June 24, 2013 in the amount of \$.935 million and a Bank Loan for JD Tractor on March 11, 2014 in the amount of \$.047 million. After redemptions the outstanding balance of debt is \$4.906 million for 2015. The balance in the Debt Service Fund was \$(152,266).

- The Local Option Sales Tax Fund had receipts of \$281,742 and then transferred \$250,000 to the general fund. The net result was an increase of \$31,742, leaving an ending Local Option Sales tax Fund balance of \$154,381.
- The increase in the Water Fund cash balance changed from (\$4,371) to a cash balance of \$178,881. The increase was due to a reallocation in expenses for bonding and an increase in water utility rates to offset increased expenses for purchased water from Waterloo Water Works and payment of infrastructure to Northern Tier. Ending balance for the Water Fund is \$178,881.
- The Sewer Fund cash balance increased from (\$204,089) to \$142,241 due to revenues exceeding expenses for the year. The increase was due to a reallocation in expenses for bonding and an increase in sewer utility rates to offset increased expenses of infrastructure to the Northern Tier. Ending balance for the Sewer Fund is \$142,241.
- The Storm Water Fund balance increased from \$95,103 to \$242,509 due to revenues exceeding expenses for the year. Ending fund balance for Storm Water is \$242,509.
- The Solid Waste Fund balance increased from \$28,054 to \$59,453 due to revenues exceeding expenses for the year. Ending fund balance for Solid Waste is \$59,453.
- The Non-major Fund cash balance increased by \$147,379 from \$111,633 to \$259,012. The balance in the Non-major Fund reflects a cash basis total of \$259,012 with a restricted balance amount of \$242,509 leaving \$16,503 unassigned Non-major Fund in 2015.
- Capital Project Funds were established or maintained for the Northern Tier, Eldora Road, Butterfield Road, Ranchero Water Main, and 2015 N. Tier infrastructure with a combined ending fund cash balance of \$(397,128) a decrease of (\$32,153) from 2014. Expenses are anticipated to be recouped with TIF Financing, Grants, Internal Fund Transfers, or Bond Notes.

Capital Projects Ending Balances for 2015:

Northern Tier	(\$2,625)
Eldora Road	(\$1,456)
Butterfield Road	(\$418,110)
Ranchero Water Main	\$73,536
2015 N. Tier	(\$48,473)

- Special Revenue Funds increased by \$60,598 to a year ending balance of \$682,625.

Special Revenue Ending Balances for 2015:

IJOBS	\$0
Employee Benefits	\$354,025
Underpass Trail	\$0

TIF Capital Projects	\$86,553
TIF Surplus	\$319,992
TIF	(\$4,827)
Economic Development	\$200,000
Building Condemnations	\$5,000
Unemployment Benefits	(\$2,781)

NOTE: It was identified that the employee benefits were paid out of the general fund accounts instead of the designated employee benefit account in 2015.

BUDGETARY HIGHLIGHTS

Over the course of the year, the City amended its budget once in May 2015. The net result of that amendment was to increase revenues by \$232,893. Budgeted expenditures increase is attributable to governmental activities.

DEBT ADMINISTRATION

At June 30, 2015 the City had \$4,870,000 of General Obligation Capital Loan Notes and a Bank Loan of \$36,359 for purchase of JD Tractor.

Outstanding Debt at Year End (Expressed in Thousands)

Description	Year Ending June 30, 2015
2013 General Obligation-Capital Loan Note	795
2011 General Obligation-Capital Loan Note	4,075
2014 Bank Loan-JD Tractor	36
Total Outstanding Debt	4,906

The Constitution of the State of Iowa limits the amount of general obligation debt cities can issue to 5% of the assessed value of all taxable property within the City's corporate limits. The City's outstanding general obligation & bank loan debt of \$4,906,302 is below its constitutional debt limit.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The City of Hudson's elected and appointed officials and citizens considered many factors when setting the fiscal year 2016 budget.

The amounts available for appropriation in the operating 2016 budget for receipts are \$3,002,019. This is a reduction due to capital project grants. Budgeted disbursements are expected to be \$2,914,275 for the budget 2016. The City has added no major new programs; however, it is anticipated that expenses will cost no more than anticipated revenues for fiscal year 2016 budgetary accounting. This number will fluctuate within the fiscal year 2016 due to capital project completion or delays, grant receipts, or emergency action items on behalf of the city.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the Hudson City Clerk's Office, 525 Jefferson Street, Hudson, Iowa, 50643. Phone (319) 988-3600.

Basic Financial Statements

City of Hudson

Cash Basis Statement of Activities and Net Position

As of and for the year ended June 30, 2015

Functions / Programs:	Disbursements	Program Receipts		
		Charges for Service	Oper. Grants, Contributions, and Restricted Interest	Capital Grants, Contributions and Restricted Interest
Governmental activities:				
Public safety	\$ 443,862	55,689	69,816	-
Public works	297,465	-	237,288	53,000
Health and social services	2,200	-	-	-
Culture and recreation	308,135	26,214	13,687	1,000
Community and economic development	69,772	1,810	-	-
General government	377,812	47,424	-	-
Debt service	432,648	-	-	-
Capital projects	785,252	-	-	-
Business type	-	-	-	-
Total governmental activities	2,717,146	131,137	320,791	54,000
Business type activities:				
Sewer	172,123	318,574	-	-
Water	282,128	378,197	-	-
Solid Waste	124,013	155,412	-	-
Nonmajor business type funds	18,240	41,565	-	-
Total business type activities	596,504	893,748	-	-
Total	\$ 3,313,650	1,024,885	320,791	54,000

General Receipts and Transfers:

Property tax levied for:
 General purposes
 Tax increment financing
 Local option sales tax
 Unrestricted interest
 Rents
 Miscellaneous
 Transfers

Total general receipts and transfers

Change in cash basis net position

Cash basis net position beginning of year

Cash basis net position end of year

Cash Basis Net Position

Restricted:
 Expendable:
 Streets
 Debt Service
 Other purposes
 Unrestricted

Total cash basis net position

See notes to financial statements

Capital Grants, Contributions and Restricted Interest	Net (Disbursements) Receipts and Changes in Cash Basis Net Position		
	Governmental Activities	Business Type Activities	Total
-	(318,357)	-	(318,357)
53,000	(7,177)	-	(7,177)
-	(2,200)	-	(2,200)
1,000	(267,234)	-	(267,234)
-	(67,962)	-	(67,962)
-	(330,388)	-	(330,388)
-	(432,648)	-	(432,648)
-	(785,252)	-	(785,252)
-	-	-	-
54,000	(2,211,218)	-	(2,211,218)
-	-	146,451	146,451
-	-	96,069	96,069
-	-	31,399	31,399
-	-	23,325	23,325
-	-	297,244	297,244
54,000	(2,211,218)	297,244	(1,913,974)

1,094,450	-	1,094,450
86,372	-	86,372
278,533	-	278,533
31,081	13	31,094
4,200	-	4,200
297,515	150	297,665
(410,956)	410,956	-
1,381,195	411,119	1,792,314
(830,023)	708,363	(121,660)
2,214,383	(68,776)	2,145,607
\$ 1,384,360	639,587	2,023,947

144,187	-	144,187
-	-	-
1,114,951	-	1,114,951
125,222	639,587	764,809
\$ 1,384,360	639,587	2,023,947

Statement of Cash Receipts, Disbursements
and Changes in Cash Balances
Governmental Funds

As of and for the year ended June 30, 2015

	General	Special Revenue			
		Road Use Tax-#110	Employee Benefits-#112	Local Option Tax-#121	TIF-Capital Proj-#125
Receipts:					
Property tax	\$ 805,845	-	196,025	-	-
TIF collections		-	-	-	86,372
Other city tax		-	-	278,533	-
Licenses and permits	61,499	-	-	-	-
Use of money and property	289,860	-	-	3,209	3,504
Intergovernmental	83,503	237,288	-	-	-
Charges for service	57,266	-	-	-	-
Special assessments	-	-	-	-	-
Miscellaneous	49,596	-	-	-	-
Total receipts	1,347,569	237,288	196,025	281,742	89,876
Disbursements:					
Operating:					
Public safety	443,862	-	-	-	-
Public works	186,858	110,607	-	-	-
Health and social services	2,200	-	-	-	-
Culture and recreation	308,135	-	-	-	-
Community and economic development	54,697	-	-	-	15,075
General government	366,450	-	-	-	-
Debt service	-	-	-	-	-
Capital projects	-	-	-	-	-
Business Type	-	-	-	-	-
Total disbursements	1,362,202	110,607	-	-	15,075
Excess (deficiency) of receipts over disbursements	(14,633)	126,681	196,025	281,742	74,801
Other financing sources (uses):					
Operating transfers in	974,794	-	-	-	86,553
Operating transfers out	(2,089,008)	(132,000)	-	(250,000)	-
Total other financing sources (uses)	(1,114,214)	(132,000)	-	(250,000)	86,553
Change in cash balances	(1,128,847)	(5,319)	196,025	31,742	161,354
Cash balances beginning of year	1,563,577	149,506	158,000	122,639	245,191
Cash balances end of year	\$ 434,730	144,187	354,025	154,381	406,545
Cash Basis Fund Balances					
Restricted For:					
Streets	-	144,187	-	-	-
Debt Service	-	-	-	-	-
Other Purposes	-	-	354,025	154,381	406,545
Unassigned	434,730	-	-	-	-
Total cash basis fund balances	\$ 434,730	144,187	354,025	154,381	406,545

See notes to financial statements

Economic Devel-#160	Debt Service	Washington 6th #303	Nonmajor Governmental	Total
-	92,580	-	-	1,094,450
-	-	-	-	86,372
-	-	-	-	278,533
-	-	-	-	61,499
-	-	-	-	296,573
-	-	-	-	320,791
-	-	-	-	57,266
-	-	-	-	-
-	-	53,000	-	102,596
-	92,580	53,000	-	2,298,080
-	-	-	-	443,862
-	-	-	-	297,465
-	-	-	-	2,200
-	-	-	-	308,135
-	-	-	-	69,772
-	-	-	11,363	377,813
-	432,648	-	-	432,648
-	-	452,411	332,841	785,252
-	-	-	-	-
-	432,648	452,411	344,204	2,717,147
-	(340,068)	(399,411)	(344,204)	(419,067)
-	88,600	665,360	250,000	2,065,307
-	-	-	(5,255)	(2,476,263)
-	88,600	665,360	244,745	(410,956)
-	(251,468)	265,949	(99,459)	(830,023)
200,000	99,202	(28,282)	(295,450)	2,214,383
200,000	(152,266)	237,667	(394,909)	1,384,360
-	-	-	-	144,187
-	-	-	-	-
200,000	-	-	-	1,114,951
-	(152,266)	237,667	(394,909)	125,222
200,000	(152,266)	237,667	(394,909)	1,384,360

City of Hudson

Reconciliation of the Statement of Cash
Receipts, Disbursements and Changes in Cash Balances
to the Cash Basis Statement of Activities and Net Position -
Governmental Funds

As of and for the year ended June 30, 2015

Total governmental funds cash balances (page 11)	\$ 1,384,360
The city does not have an internal service fund. Therefore there are no reconciling items.	<u>-</u>
Cash basis net position of governmental activities (page 9)	<u>\$ 1,384,360</u>
Net change in cash balances (page 11)	\$ (830,023)
The city does not have an internal service fund. Therefore there are no reconciling items.	<u>-</u>
Change in cash basis net position of governmental activities (page 9)	<u>\$ (830,023)</u>
See notes to financial statements	

City of Hudson

Statement of Cash Receipts, Disbursements and Changes in Cash Balances
Proprietary Funds

As of and for the year ended June 30, 2015

	Sewer	Water	Solid Waste	Nonmajor	Total
Operating receipts:					
Charges for service	\$ 318,574	378,197	155,412	41,565	893,748
Use of money and property	-	13	-	-	13
Miscellaneous	-	-	-	150	150
Total operating receipts	318,574	378,210	155,412	41,715	893,911
Operating disbursements:					
Business type activities	172,123	282,128	124,013	18,240	596,504
Total operating disbursements	172,123	282,128	124,013	18,240	596,504
Excess (deficiency) of operating receipts over (under) operating disbursements	146,451	96,082	31,399	23,475	297,407
Operating transfers in	199,882	175,770	-	123,904	499,556
Operating transfers out	-	(88,600)	-	-	(88,600)
Net change in cash balances	346,333	183,252	31,399	147,379	708,363
Cash balances beginning of year	(204,092)	(4,371)	28,054	111,633	(68,776)
Cash balances end of year	\$ 142,241	178,881	59,453	259,012	639,587
Cash Basis Fund Balances					
Unrestricted	\$ 142,241	178,881	59,453	259,012	639,587
Restricted for Debt Service	-	-	-	-	-
Total cash basis fund balances	\$ 142,241	178,881	59,453	259,012	639,587

See notes to financial statements

City of Hudson

Reconciliation of the Statement of Cash
Receipts, Disbursements and Changes in Cash Balances
to the Cash Basis Statement of Activities and Net Position -
Proprietary Funds

As of and for the year ended June 30, 2015

Total enterprise funds cash balances (page 13)	\$ 639,587
--	------------

The city does not have an internal service fund.
Therefore there are no reconciling items.

-

Cash basis net position of business type activities (page 9)	\$ 639,587
---	------------

\$ 639,587

Net change in cash balances (page 13)	\$ 708,363
---------------------------------------	------------

\$ 708,363

The city does not have an internal service fund.
Therefore there are no reconciling items.

-

Change in cash basis net position of business type activities (page9)	\$ 708,363
--	------------

\$ 708,363

See notes to financial statements

City of Hudson

Notes to Financial Statements

June 30, 2015

(1) Summary of Significant Accounting Policies

The City of Hudson is a political subdivision of the State of Iowa located in Black Hawk County. It was first incorporated in 1893 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens, including public safety, public works, health and social services, culture and recreation, community and economic development, and general government services. The City also provides water, sewer, and solid waste utilities for its citizens.

A. Reporting Entity

For financial reporting purposes, the City of Hudson has included all funds, organizations, agencies, boards, commissions and authorities. The City has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the City.

These financial statements present the City of Hudson and its discretely presented component units the Hudson Municipal Electric Utility and the Hudson Municipal Communication Utility. These component units, discussed below, are included in the City's reporting entity because of the significance of their operational or financial relationship with the City. (See Note 13)

Discretely Presented Component Unit

Hudson Municipal Electric Utility, established under Chapter 388 of the Code of Iowa, is a legally separate entity, but has the potential to provide specific benefits to or impose specific burdens on the City. The Utility is governed by a five member board appointed by the Mayor and approved by the Council. In accordance with criteria set forth by the Governmental Accounting Standards Board, the Utility meets the definition of a component unit which should be discretely presented. Condensed financial information presented in Note 13 is unaudited and was prepared on the cash basis of accounting in conformity with U. S. generally accepted accounting principles.

Hudson Municipal Communications Utility, is a legally separate entity, but has the potential to provide specific benefits to or impose specific burdens on the City. The Communications Utility is still in the exploratory stage and it is unknown whether or not it will become functional. Condensed financial information presented in Note 13 is unaudited and was prepared on the cash basis of accounting in conformity with U. S. generally accepted accounting principles.

Jointly Governed Organizations

The City participates in several jointly governed organizations that provide goods or services to the citizenry of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. The City is represented on the Black Hawk County Emergency Management Board, Black Hawk Conference Board, Black Hawk County Solid Waste Management Commission, Iowa League of Cities, Iowa Municipal Finance Association (IMFOA), Iowa Association of Municipal Utilities (IAMU), Iowa Northland Regional Council of Governments (INRCOG), Iowa Emergency Medical Service Association, Black Hawk County Fire Fighters Association, Grundy County Fire Fighters Association, NEIA Regional Hazmat Agreement, Black Hawk County E911 Board, Tri-County Drug Enforcement Task Force, Black Hawk County REAP Commission, and Black Hawk County Metropolitan Area Transportation Board and Technical Committee.

B. Basis of Presentation

Government-wide Financial Statements - The Cash Basis Statement of Activities and Net Position reports information on all of the nonfiduciary activities of the City. For the most part, the effect of interfund activity has been removed from this statement. Governmental activities, which are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for services.

The Cash Basis Statement of Activities and Net Position presents the City's nonfiduciary net position. Net position is reported in the following categories/components:

Nonexpendable restricted net position is subject to externally imposed stipulations which require the cash balance to be maintained permanently by the City.

Expendable restricted net position results when constraints placed on the use of cash balances are either externally imposed or imposed by law through constitutional provisions or enabling legislation. Enabling legislation did not result in any restricted net position.

Unrestricted net position consists of cash balances not meeting the definition of the preceding category. Unrestricted net position is often subject to constraints imposed by management, which can be removed or modified.

The Cash Basis Statement of Activities and Net Position demonstrates the degree to which the direct disbursements of a given function are offset by program receipts. Direct disbursements are those clearly identifiable with a specific function. Program receipts include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and 2) grants, contributions and interest on investments restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program receipts are reported instead as general receipts.

Fund Financial Statements – Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor governmental funds.

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax receipts from general and emergency levies and other receipts not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating disbursements, the fixed charges and the capital improvement costs not paid from other funds.

Special Revenue:

The Road Use Tax Fund (#110) is used to account for road construction and maintenance.

The Employee Benefit Fund (#112) is used to account for payment of employee benefits.

The Local Option Tax Fund (#121) is used to account for the receipt and disbursement of the Local Option Tax.

The TIF Capital Project Fund (#125) is used to account for the collection of TIF funds and payment of TIF funds.

The Economic Development Fund (#160) is used to account for any payments by the city for economic development.

The Debt Service Fund is used to account for property tax and other receipts to be used for the payment of interest and principal on the City's long term debt.

Capital Projects:

The Highway 63 trail and Eldora Fund (#303) is used to account for the revenues and disbursements for the Highway 63 trail and Eldora project.

The City reports the following major proprietary funds:

The Enterprise Sewer Fund accounts for the operation and maintenance of the City's waste water treatment and sanitary sewer system.

The Enterprise Water Fund accounts for the operation and maintenance of the City's water system.

The Solid Waste Fund accounts for the operation and maintenance of the City's solid waste operations.

C. Measurement Focus and Basis of Accounting

The City of Hudson maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles.

Under the terms of grant agreements, the City funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants and general receipts. Thus, when program disbursements are paid, there are both restricted and unrestricted cash basis net position available to finance the program. It is the City's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants and then by general receipts.

When a disbursement in governmental funds can be paid using either restricted or unrestricted resources, the City's policy is generally to first apply the disbursement toward restricted fund balance and then to less-restrictive classifications-committed, assigned and then unassigned fund balances.

Proprietary funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

D. Governmental Cash Basis Fund Balances:

In the governmental fund financial statements, cash basis fund balances are classified as follows:

Nonspendable-Amounts which cannot be spent because they are legally or contractually required to be maintained intact.

Restricted-Amounts restricted to specific purposes when constraints placed on the use of the resources are either externally imposed by creditors, grantors or state, or federal laws or imposed by law through constitutional provisions or enabling legislation.

Assigned-Amounts the Council intends to use for specific purposes.

Unassigned-All amounts not included in other spendable classifications.

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Other Information. During the year ended June 30, 2015 the City did not exceed the amounts in the amended budget, however the City did exceed the original budget before the amendment in the governmental function activity.

(2) **Cash and Pooled Investments**

The City's deposits in banks at June 30, 2015 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The City is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

As of June 30, 2015, the City had no investments, as all ending fund balances were in the form of certificates of deposit, savings accounts and checking accounts.

Interest rate risk-The City's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) to instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days, but the maturities shall be consistent with the needs and use of the City.

(3) **Bonds and Notes Payable**

Annual debt service requirements to maturity of the General Obligation Capital Loan Notes are as follows:

Year Ending June	Capital Obligation	
	<u>Capital Loan Notes</u>	
	<u>Principal</u>	<u>Interest</u>
2016	\$ 295,000	130,192
2017	335,000	126,820
2018	350,000	122,040
2019	350,000	119,295
2020	365,000	112,295
2021-2025	1,915,000	420,460
2026-2030	1,080,000	146,400
2031-2035	<u>180,000</u>	<u>7,200</u>
	<u>\$ 4,870,000</u>	<u>1,184,702</u>

General Obligation Refunding Bonds:

The City issued \$935,000 in General Obligation Corporate Refunding Bonds dated June 1, 2013 with variable interest ranging from 0.75% to 2.50%. The bonds were issued for the purpose of refunding series 2006 Water Revenue Capital Note, series 2013 Sewer Revenue Capital Note and series 2010 Water Revenue Loan.

Interest on the bonds is payable June 1 and December 1 each year beginning December 1, 2013. Principal payments are due on June 1 of each year beginning June 1, 2015. The City paid \$18,600 in interest and \$70,000 in principal during the year ended June 30, 2015. Balance at June 30, 2015 was \$795,000.

General Obligation Corporate Purpose and Refunding Bonds:

The City issued \$4,815,000 in General Obligation Corporate Purpose and Refunding Bonds, dated September 15, 2011, with variable interest ranging from 0.35% to 4.00%. The notes were issued for the purpose of advance refunding of General Obligation Capital Loan Notes dated June 1, 2006 and to finance various improvements, including those to the city's streets, sidewalks, and sewer and water systems.

- a. Interest on the bonds is payable on June 1 and December 1 each year beginning June 1, 2012. Principal payments are due on June 1 of each year beginning June 1, 2012.
- b. The notes are subject to prepayment at the option of the Issuer; in each of the years 2020 through 2031 inclusive, prior to and in any order of maturity on June 30, 2019, or on any date thereafter upon terms of par plus interest to date of call.
- c. The bonds maturing June 1, 2027 and 2031 are subject to Mandatory Sinking Fund Redemption, in part, at 100% of the principal amount to be redeemed plus interest accrued to the date of redemption. Thus the 2027 \$490,000 Term Bond will require a payment of \$330,000 plus interest on June 1, 2026 and the remaining \$160,000 plus interest on June 1, 2027. The payments on the 2031 \$690,000 Term Bond is shown below:

The City paid \$118,047 in interest and \$225,000 in principal during year ended June 30, 2015. Balance at June 30, 2015 was \$4,075,000.

Other Notes Payable

There is a note payable to BankIowa of Waterloo, Iowa dated March 11, 2015 with an original balance of \$47,258. Interest rate is 3.950%. There are fifty-nine payments of \$869.26 and one final payment of \$982.51 due on March 15, 2019 scheduled. The borrowing was used to purchase a John Deere #4720 Compact Utility Tractor, a John Deere #400CX Loader and a John Deere #96107 Pro Sno Blade. The City paid \$8,808 in principal and \$1,624 in interest during year ended June 30, 2015. Balance at June 30, 2015 was \$36,359

(4) Pension and Retirement Benefits
Iowa Public Employees Retirement System-

Plan Description-IPERS membership is mandatory for employees of the City, except for those covered by another retirement system. Employees of the City are provided with pensions through a cost-sharing multiple employer defined benefit pension plan administered by Iowa Public Employees Retirement System (IPERS). IPERS issues a standalone financial report which is available to the public by mail at 7401 Register Drive P.O. Box 9117, Des Moines, Iowa, 50306-9117 or at www.ipers.org.

IPERS benefits are established under Iowa Code chapter 97B and the administrative rules are the official plan documents. The following brief description is provided for general informational purposes only. Refer to the plan documents for more information.

Pension Benefits-A regular member may retire at normal retirement age and receive monthly benefits without an early-retirement reduction. Normal retirement age is age 65, after reaching age 62 with 20 or more years of covered employment, or when the member's years of service plus the member's age at the last birthday equals or exceeds 88, whichever comes first. (These qualifications must be met on the member's first month of entitlement to benefits.) Members cannot begin receiving retirement benefits before age 55. The formula used to calculate a Regular member's monthly IPERS benefit includes:

- A multiplier (based on years of service)
- The members highest five-year average salary. (For members with service before June 30, 2012, the highest three-year average salary as of that date will be used if it is greater than the highest five-year average salary.)

If a member retires before normal retirement age, the member's monthly retirement benefit will be permanently reduced by an early-retirement reduction. The early-retirement reduction is calculated differently for service earned before and after July 1, 2012. For service earned before July 1, 2012, the reduction is 0.25 percent for each month that the member receives benefits before the member's earliest normal retirement age. For service earned starting July 1, 2012, the reduction is 0.50 percent for each month that the member receives benefits before age 65.

Generally, once a member selects a benefit option, a monthly benefit is calculated and remains the same for the rest of the member's lifetime. However, to combat the effects of inflation, retirees who began receiving benefits prior July 1990 receive a guaranteed dividend with their regular November benefit payments.

Disability and Death Benefits- A vested member who is awarded federal Social Security disability or Railroad Retirement disability benefits is eligible to claim IPERS benefits regardless of age. Disability benefits are not reduced for early retirement. If a member dies during retirement, the member's beneficiary will receive a lifetime annuity or a lump-sum payment equal to the present actuarial value of the member's accrued benefit or calculated with a set formula, whichever is greater. When a member dies after retirement, death benefits depend on the benefit option the member selected at retirement.

Contributions-Effective July 1, 2012, as a result of a 2010 law change, the contribution rates are established by IPERS following the annual actuarial valuation, which applies IPERS' Contribution Rate Funding Policy and Actuarial Amortization Method. Statute limits the amount rates can increase or decrease each year to 1 percentage point. IPERS Contribution Rate Funding Policy requires that the actuarial contribution rate be determined using the "entry age normal" actuarial cost method

and the actuarial assumptions and methods approved by the IPERS Investment Board. The actuarial contribution rate covers normal cost plus the unfunded actuarial liability payment based on a 30-year amortization period. The payment to amortize the unfunded actuarial liability is determined as a level percentage of payroll, based on the Actuarial Amortization Method adopted by the Investment Board.

In fiscal year 2015, pursuant to the required rate, Regular members contributed 5.95 percent of pay and the City contributed 8.93 percent for a total rate of 14.88 percent.

The City's contributions to IPERS for the year ended June 30, 2015 were \$59,285.

Collective Net Pension Liabilities, Collective Pension Expense, and Collective Deferred Outflows of Resources and Collective Deferred Inflows of Resources Related to Pensions.

At June 30, 2015, the City's liability for its proportionate share of the collective net pension liability totaled \$244,588. The collective net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate the collective net pension liability was determined by an actuarial valuation as of that date. The City's proportion of the collective net pension liability was based on the City's share of contributions to the pension plan relative to the proportion was 0.006044 percent, which was an increase of 0.000087 from its proportion measured as of June 30, 2013.

For the year ended June 30, 2015 the City collective pension expense, collective deferred outflows and collective deferred inflows totaled \$18,307, \$13,452 and \$93,286 respectively.

Actuarial Assumptions-The total pension liability in the June 30, 2014 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Rate of inflation (effective June 30, 2014)	3.00 percent per annum
Rates of salary increase (effective June 30, 2010)	4.00 to 17.00 percent, average, including Inflation. Rates vary by membership group
Long-term investment rate of return (effective June 30, 1996)	7.50 percent, compounded annually, net Of investment expense, including inflation

The actuarial assumptions used in the June 30, 2014 valuation were based on the results of actuarial experience studies with dates corresponding to those listed above.

Mortality rates were based on the RP-2000 Mortality Table for Males or Females, as appropriate, with adjustments for mortality improvements based on Scale AA.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real

rates (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Asset Allocation</u>	Long-Term Expected
		<u>Real Rate of Return</u>
U.S. Equity	23%	6.31
Non US Equity	15	6.76
Private Equity	13	11.34
Real Estate	8	3.52
Core Plus Fixed Income	28	2.06
Credit Opportunities	5	3.67
TIPS	5	1.92
Other Real Assets	2	6.27
Cash	<u>1</u>	(0.69)
Total	<u>100%</u>	

Discount Rate-The discount rate used to measure the total pension liability was 7.5 percent. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the contractually required rate and that contributions from the City will be made at contractually required rates, actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the City's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate- The following presents the City's proportionate share of the net pension liability calculated using the discount rate of 7.35 percent, as well as what the City's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.5 percent) or 1-percentage-point higher (8.5 percent) than the current rate.

	1% Decrease	Discount Rate	1% Increase
	6.5%	7.5%	8.5%
City's proportionate share of the net pension liability	\$ 462,142	\$ 244,588	\$ 60,950

Pension Plan Fiduciary Net Position-Detailed information about the pension plan's fiduciary net position is available in the separately issued IPERS financial report which is available on IPER'S website at www.ipers.org.

5) Other Postemployment Benefits (OPEB)

Plan Description-The City operates a single-employee retiree benefit plan which provides medical/ prescription drug benefits for employees, retirees and their spouses. There are 14 active and retired members in the plan. Participants must be age 55 or older at retirement.

The medical/ prescription drug benefits are provided through a fully-insured plan with Wellmark. Retirees under age 65 pay the same premium for the medical/ prescription drug benefits as active employees.

Funding Policy- The contribution requirements of plan members are established and may be amended by the City. The City currently finances the retiree benefit plan on a pay-as-you-go basis. Member monthly premiums for the City and plan members are based on age. All plan members premium are updated on June 1 of each year. For employees the City pays 90% and the plan member pays the remaining 10%. For family of employees the City pays 50% and the employee pays the other 50%. Dental coverage for single employees is \$25, for employee and children coverage is \$47, and for employee with family dental coverage is \$51. Vision is paid entirely by employees. For the year ended June 30, 2015, the City contributed \$106,745 and plan members eligible for benefits contributed \$26,111 to the plan.

(6) Compensated Absences

City of Hudson employees accumulate a limited amount of earned but unused vacation and sick leave hours based on the length of employment. It is payable when used and may be accumulated at a rate of 10 days per year, to a maximum of 90 days. At the end of employment, any employee with accumulated sick leave will be paid 15% of their accumulated sick leave. Vacation is payable when used and accumulates based on an employee's anniversary date. Vacation may be accumulated past the anniversary date in isolated cases specifically approved by the City council. The City also has a policy of paying an employee up to 50% of the employee's accumulated vacation time, at the current pay rate. Employees are also able to convert unpaid overtime hours into comp time at time and one-half. These accumulations are not recognized as disbursements by the City until used or paid. At the end of employment, the City is liable for earned vacation, for comp time, and for accumulated sick leave. The City's approximate liability for earned vacation termination payments payable to employees at June 30, 2015 is \$18,310. The City's approximate liability for earned comp time payable to employees at June 30, 2015 is \$8,238. The City's approximate liability for sick leave at June 30, 2015 is \$9,789. This liability has been computed based on rates of pay in effect at June 30, 2015.

(7) Unemployment Fund

The City files reports with the Iowa Workforce Development (IWD), but pays nothing to IWD. Therefore the City is responsible for any unemployment claims. Beginning in the year ended June 30, 2012 the City created a fund to account for unemployment claims. During

the year the City transferred \$18,000 from the General Fund to the newly created Unemployment Fund. The City paid out \$11,363 in claims for year ended June 30, 2015.

(8) Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2015 is as follows:

Transfers generally move resources from the fund statutorily required to collect the resources to the fund statutorily required to disburse the resources.

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
General-General:	Underpass Trail	\$ 5,255
	Rural Fire	538,908
	General Reserve	<u>430,631</u>
		<u>974,794</u>
Special Revenue:		
TIF	General Reserve	<u>86,553</u>
Debt Service:	Water	<u>88,600</u>
Capital Projects:		
Highway 6/Eldora	General	533,360
	Road Use Tax	<u>132,000</u>
		<u>665,360</u>
Butterfield	Local Option Tax	<u>250,000</u>
Water	General	5,299
	Reserve	<u>170,471</u>
		<u>175,770</u>
Sewer	General	3,250
	General Reserve	<u>196,632</u>
		<u>199,882</u>
Storm Water	Reserve	<u>123,904</u>
Total Interfund Transfers		<u>\$2,564,864</u>

(9) Related Party Transactions

The City had business transactions between the City and City employees totaling \$5,785 during the year ended June 30, 2015.

(10) Risk Management

The City is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The City assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(11) Deficit Balance

The Debt Service Fund (#202), The Special Revenue-Unemployment Payments (#182), Capital Projects-Eldora Grant Fund (#302), North Tier (#305), Butterfield (#310), and 2015 North Tier (#312), had deficit balances at June 30, 2015. The City will eliminate with the receipt of funds or the transfer of funds.

(12) Landfill Commitment

The City of Hudson has a contract with Black Hawk Waste for the collection of solid waste that began July 1, 2011 and runs until June 30, 2015. Contract has been extended thru June 30, 2016.

(13) Component Units

The following Discretely Presented Component Unit, Hudson Municipal Electric Utility, is unaudited condensed financial information for the Utility for the year ended June 30, 2015.

Condensed Statement of Receipts, Disbursements and Changes in Cash Balances-As of and for the Year Ended June 30, 2015-Unaudited

Operating Receipts	\$ 1,594,613
Less: Operating Disbursements	<u>1,493,451</u>
Net Change in Cash Balances	101,162
Cash Balance Beginning of Year	<u>781,246</u>
Cash Balance End of Year	<u>\$ 882,574</u>

The following Discretely Presented Component Unit, Hudson Municipal Communications Utility, is unaudited condensed financial information for the Communications Utility for the year ended June 30, 2015.

Interest Earned	\$ 7
Cash Balance Beginning of Year	<u>13,594</u>
Cash Balance End of Year	<u>\$ 13,601</u>

(15) Litigation

There is no pending litigation involving the City of Hudson. See Note 16 for settlement of prior year lawsuit.

(16) Subsequent Events

The City has awarded a bid of \$892,427 to Peterson Contractors for work on extension of the current U.S. Hwy 63 Bike Trail. Federal funds will pay 80% and the City will be responsible for 20% of the project. The City has received \$100, 000 from Black Hawk County Gaming Association toward the City's share of the project.

The City paid \$15,000 to settle lawsuit by former city clerk.

Other Information

City of Hudson

Budgetary Comparison Schedule
of Receipts, disbursements, and Changes in Balances -
Budget and Actual (Cash Basis) - All Governmental Funds and Proprietary Funds
Other Information

Year ended June 30, 2015

	Governmental Funds Actual	Proprietary Funds Actual	Less Funds not Required to be Budgeted
Receipts:			
Property tax	\$ 1,094,450	-	-
Tax increment financing collections	86,372	-	-
Other city tax	278,533	-	-
Licenses and permits	61,499	-	-
Use of money and property	296,573	13	-
Intergovernmental	320,791	-	-
Charges for service	57,266	893,748	-
Special assessments	-	-	-
Miscellaneous	102,596	150	-
Total receipts	2,298,080	893,911	-
Disbursements:			
Public safety	443,862	-	-
Public works	297,465	-	-
Health and social services	2,200	-	-
Culture and recreation	308,135	-	-
Community and economic development	69,772	-	-
General government	377,813	-	-
Debt service	432,648	-	-
Capital projects	785,252	-	-
Business type activities	-	596,504	-
Total disbursements	2,717,147	596,504	-
Excess of receipts over disbursements	(419,067)	297,407	-
Other financing sources, net	(410,956)	410,956	-
Excess of receipts and other financing sources over disbursements and other financing uses	(830,023)	708,363	-
Balances beginning of year	2,214,383	(68,776)	-
Balances end of year	\$ 1,384,360	639,587	-

See accompanying independent auditor's report.

Net	Budgeted Amounts		Final to Net Variance
	Original	Final	
1,094,450	1,079,373	1,079,373	15,077
86,372	86,000	86,000	372
278,533	294,149	294,149	(15,616)
61,499	79,373	79,373	(17,874)
296,586	32,800	32,800	263,786
320,791	399,725	632,618	(311,827)
951,014	900,105	900,105	50,909
-	-	-	-
102,746	41,231	41,231	61,515
3,191,991	2,912,756	3,145,649	46,342
443,862	561,624	561,624	117,762
297,465	318,513	326,513	29,048
2,200	5,000	5,000	2,800
308,135	343,192	343,192	35,057
69,772	88,035	88,035	18,263
377,813	411,867	411,867	34,054
432,648	431,648	432,648	-
785,252	-	787,608	2,356
596,504	1,004,931	1,004,931	408,427
3,313,651	3,164,810	3,961,418	647,767
(121,660)	(252,054)	(815,769)	694,109
-	-	(2,544,842)	2,544,842
(121,660)	(252,054)	(3,360,611)	3,238,951
2,145,607	4,481,424	4,481,424	(2,335,817)
2,023,947	4,229,370	1,120,813	903,134

City of Hudson

Notes to Other Information – Budgetary Reporting

June 30, 2015

The budgetary comparison is presented in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds except Internal Service Funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon nine major classes of disbursements known as functions, not by fund. These nine functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, and business type activities. Function disbursements required to be budgeted include disbursements for the General Fund, Special Revenue Funds, Debt Service Fund, Capital Projects Funds and Enterprise Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, the budget was amended and increased budgeted disbursements by \$ 796,608. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2015, disbursements did not exceed amounts budgeted in the general government and business activities functions, but disbursements did exceed the original budget in the general government activity function prior to amendment.

City of Hudson

Schedule of the City's Proportionate Share of the
Net Pension Liability

Iowa Public Employees' Retirement System
As of June 30, 2015
(In Thousands)

Other Information

	<u>2015</u>
City's proportion of the net pension liability	0.006044%
City's proportionate share of the net pension liability	\$245
City's covered-employee payroll	\$632
City's proportionate share of the net pension liability as a percentage of its covered-employee payroll	38.76%
Plan fiduciary net position as a percentage of the total pension liability	87.61%

NOTE: GASB Statement No. 68 requires ten years of information to be presented in this table. However, until a full 10-year trend is compiled, the City will present information for those years for which information is available.

See accompanying independent auditor's report

City of Hudson
Schedule of City Contributions

Iowa Public Employee's Retirement System
Last Ten Years
(In Thousands)

Other Information

	<u>2015</u>	<u>2014</u>	<u>2013</u>
Statutorily required contribution	59	56	54
Contributions in relation to the statutorily required contribution	<u>(59)</u>	<u>(56)</u>	<u>(54)</u>
Contribution deficiency(excess)	<u>-</u>	<u>-</u>	<u>-</u>
City's covered-employee payroll	661	627	623
Contributions as a percentage of covered-employee payroll	8.93%	8.93%	8.67%

See accompanying independent auditor's report

<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>
54	46	44	39	39	38	36
(54)	(46)	(44)	(39)	(39)	(38)	(36)
-	-	-	-	-	-	-
669	662	662	614	645	661	626
8.07%	6.95%	6.65%	6.35%	6.05%	5.75%	5.75%

City of Hudson

Notes to Other Information – Pension Liability

June 30, 2015

Changes of benefit terms:

Legislation passed in 2010 modified benefit terms for current Regular members. The definition of final average salary changed from the highest three to the highest five years of covered wages. The vesting requirement changed from four years of service to seven years. The early retirement reduction increased from 3 percent per year measured from the member's first unreduced retirement age to a 6 percent reduction for each year of retirement before age 65.

In 2008, legislative action transferred four groups – emergency medical service providers, county jailers, county attorney investigators, and national Guard installation security officers – from Regular membership to the protection occupation group for future service only.

Benefit provisions for sheriffs and deputies were changed in the 2004 legislative session. The eligibility for unreduced retirement benefits was lowered from age 55 by one year each July 1 (beginning in 2004) until it reached age 50 on July 1, 2008. The years of service requirement remained at 22 or more. Their contribution rates were also changed to be shared 50-50 by the employee and employer, instead of the previous 40-60 split.

Changes of assumptions:

The 2014 valuation implemented the following refinements as a result of a quadrennial experience study:

- Decreased the inflation assumption from 3.25 percent to 3.00 percent.
- Decreased the assumed rate of interest on member accounts from 4.00 percent to 3.75 percent per year.
- Adjusted male mortality rates for retirees in the Regular membership group.
- Reduced retirement rates for sheriffs and deputies between the ages of 55 and 64.
- Moved from an open 30 year amortization period to a closed 30 year amortization period for the UAL beginning June 30, 2014. Each year thereafter, changes in the UAL from plan experience will be amortized on a separate closed 20 year period.

The 2010 valuation implemented the following refinements as a result of a quadrennial experience study:

- Adjusted retiree mortality assumptions.
- Modified retirement rates to reflect fewer retirements.
- Lowered disability rates at most ages.
- Lowered employment termination rates.
- Generally increased the probability of terminating members receiving a deferred retirement benefit.
- Modified salary increase assumptions based on various service duration.

The 2007 valuation adjusted the application of the entry age normal cost method to better match projected contributions to the projected salary stream in the future years. It also included in the calculation of the UAL amortization payments the one-year lag between the valuation date and the effective date of the annual actuarial contribution rate.

The 2006 valuation implemented the following refinements as a result of a quadrennial experience study:

- Adjusted salary increase assumptions to service based assumptions.
- Decreased the assumed interest rate credited on employee contributions from 4.25 percent to 4.00 percent.
- Lowered the inflation assumption from 3.50 percent to 3.25 percent.
- Lowered disability rates for sheriffs and deputies and protection occupation members.

Supplementary Information

City of Hudson

Statement of Cash Receipts, Disbursements
and Changes in Cash Balances
Nonmajor Governmental Funds

As of and for the year ended June 30, 2015

	#120 Underpass Trail	#181 Building Condemnations	#182 Unemployment Payments	#302 Eldora Grt Fund	#305 North Tier	#310 Butterfield
Receipts:						
Property tax	-	-	-	-	-	-
Tax increment financing collections	-	-	-	-	-	-
Other city tax	-	-	-	-	-	-
Use of money and property	-	-	-	-	-	-
Intergovernmental	-	-	-	-	-	-
Miscellaneous	-	-	-	-	-	-
Total receipts	-	-	-	-	-	-
Disbursements:						
Operating:						
Culture and recreation	-	-	-	-	-	-
Community and economic development	-	-	-	-	-	-
General Government	-	-	11,363	-	-	-
Capital Projects	-	-	-	-	210	270,765
Total disbursements	-	-	11,363	-	210	270,765
Excess (deficiency) of receipts over (under) disbursements	-	-	(11,363)	-	(210)	(270,765)
Other financing sources:						
Operating transfers in	-	-	-	-	-	250,000
Operating transfers out	(5,255)	-	-	-	-	-
Net change in cash balances	(5,255)	-	(11,363)	-	(210)	(20,765)
Cash balances beginning of year	5,255	5,000	8,582	(1,456)	(2,415)	(397,345)
Cash balances end of year	-	5,000	(2,781)	(1,456)	(2,625)	(418,110)
Cash Basis Fund Balances						
Restricted for Other Purpose	-	-	-	-	-	-
Unassigned	-	5,000	(2,781)	(1,456)	(2,625)	(418,110)
	-	5,000	(2,781)	(1,456)	(2,625)	(418,110)

See accompanying independent auditor's report

[illegible]

City of Hudson

Statement of Cash Receipts, Disbursements
and Changes in Cash Balances
Nonmajor Proprietary Funds

As of and for the year ended June 30, 2015

	#740 Storm Water	#630 Electric	Total
Operating Receipts:			
Charges for service	\$ 41,565	-	41,565
Use of money and property	-	-	-
Miscellaneous	150	-	150
Total operating receipts	41,715	-	41,715
Operating Disbursements:			
Business type activities	18,240	-	18,240
Total operating disbursements	18,240	-	18,240
Excess (deficiency) of receipts over (under) operating disbursements	23,475	-	23,475
Non-operating receipts(disbursements):			
Debt Proceeds	-	-	-
Debt Service	-	-	-
Excess of receipts over disbursements	23,475	-	23,475
Operating transfers in	123,904	-	123,904
Operating transfers out	-	-	-
Net change in cash balances	147,379	-	147,379
Cash balances beginning of year	95,130	16,503	111,633
Cash balances end of year	\$242,509	16,503	259,012
Cash Basis Fund Balances			
Unrestricted	\$242,509	16,503	259,012
Restricted for Debt Service	-	-	-
Total cash basis fund balances	\$242,509	16,503	259,012

See accompanying independent auditor's report

CITY OF HUDSON
SCHEDULE OF INDEBTEDNESS
JUNE 30, 2015

	<u>Date of Issue</u>	<u>Interest Rates</u>	<u>Amount Originally Issued</u>	<u>Balance 7/1/2014</u>
General Obligation Capital Ln Notes, Series 2013	6/24/2013	.75-2.5%	\$ 935,000	\$ 865,000
General Obligation Capital Ln Notes, Series 2011	9/15/2011	.35-4.0%	4,815,000	<u>4,300,000</u>
TOTAL GENERAL OBLIGATION				<u><u>5,165,000</u></u>
Bank Loan-Purchase of Tractor	3/11/2014	3.95%	47,258	<u><u>47,258</u></u>

See accompanying independent auditor's report

Issued During Year	Redeemed During Year	Balance 6/30/2015	Interest Paid	Interest Due and Unpaid
-	70,000	795,000	18,600	-
-	225,000	4,075,000	118,047	-
-	295,000	4,870,000	136,647	-
-	10,899	36,359	1,624	-

City of Hudson

Bond and Note Maturities

June 30, 2015

Year Ending June 30,	General Obligation Capital Loan Notes		General Obligation Capital Loan Notes	
	Issued June 24, 2013		Issued Sept. 15, 2011	
	Interest Rates	Amount	Interest Rates	Amount
2016	0.75%	70,000	1.20%	225,000
2017	1.15%	70,000	1.50%	265,000
2018	1.15%	70,000	1.80%	280,000
2019	1.15%	70,000	2.10%	280,000
2020	1.70%	70,000	2.30%	295,000
2021	1.70%	70,000	2.50%	290,000
2022	1.70%	70,000	2.75%	300,000
2023	2.50%	75,000	2.85%	310,000
2024	2.50%	75,000	3.00%	320,000
2025	2.50%	75,000	3.15%	330,000
2026	2.50%	80,000	4.00%	330,000
			4.00%	160,000
			4.00%	165,000
			4.00%	170,000
			4.00%	175,000
			4.00%	180,000
		<u>\$ 795,000</u>		<u>4,075,000</u>

See accompanying independent auditor's report

City of Hudson

Schedule of Receipts by Source and Disbursements By Function
All Governmental Funds

For the Last Eleven Years Ended June 30

	2015	2014	2013	2012	2011
Receipts:					
Property tax	\$ 1,094,450	918,582	869,695	807,128	767,740
Tax increment financing	86,372	83,749	83,686	85,072	89,587
Other city tax	278,533	292,538	275,678	288,484	255,398
Licenses and permits	61,499	81,857	96,641	98,309	63,266
Use of money and property	296,573	68,434	39,407	59,277	36,051
Intergovernmental	320,791	382,499	388,007	650,579	369,220
Charges for service	57,266	75,066	71,773	90,566	71,704
Special assessments	-	-	-	-	-
Miscellaneous	102,596	106,085	48,666	107,956	55,207
Total	\$ 2,298,080	2,008,810	1,873,553	2,187,371	1,708,173
Disbursements:					
Operating:					
Public safety	\$ 443,862	499,380	533,173	606,162	466,753
Public works	297,465	393,628	401,690	324,787	420,462
Health and social service	2,200	2,366	-	2,750	3,000
Culture and recreation	308,135	343,113	384,374	402,206	362,891
Community and economic development	69,772	37,388	66,861	52,982	46,994
General government	377,813	275,916	243,496	240,157	192,430
Debt service	432,648	68,876	121,053	200,988	200,388
Capital projects	785,252	1,409,890	731,035	2,653,824	289,216
Business type	-	-	-	-	-
Total	\$ 2,717,147	3,030,557	2,481,682	4,483,856	1,982,134

See accompanying independent auditor's report

2010	2009	2008	2007	2006	2005
735,485	702,182	664,085	663,057	679,949	579,612
85,291	85,849	83,541	53,445	61,042	337,583
260,965	256,879	252,649	224,717	233,252	218,195
47,850	39,445	43,283	37,024	40,125	33,009
116,637	109,803	87,998	114,536	104,153	76,821
339,158	304,243	329,042	288,862	400,681	430,497
61,605	65,139	63,575	41,355	25,971	27,054
-	-	-	-	-	-
24,788	26,476	76,147	32,389	37,620	32,569
1,671,779	1,590,016	1,600,320	1,455,385	1,582,793	1,735,340
390,220	733,212	407,123	408,563	435,337	344,562
339,263	325,640	332,346	960,408	599,231	321,786
3,000	3,045	3,000	4,500	2,500	1,787
319,378	306,881	310,679	314,752	276,246	346,490
43,225	44,230	46,921	601,328	140,978	74,673
245,411	240,505	241,598	227,196	245,170	208,078
199,338	203,338	206,939	106,938	952,913	177,773
80,341	-	383,001	-	38,395	123,745
-	-	-	-	-	-
1,620,176	1,856,851	1,931,607	2,623,685	2,690,770	1,598,894

City of Hudson

James R. Ridihalgh, C.P.A.
Gene L. Fuelling, C.P.A.
Donald A. Snitker, C.P.A.

14 East Charles St, PO Box 639
Oelwein, IA 50662
(319)283-1173
Fax (319)283-2799

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Honorable Mayor and
Members of the City Council:

We have audited in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Hudson, Iowa, as of and for the year ended June 30, 2015, and the related Notes to Financial Statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated September 18, 2015. Our report expressed unmodified opinions on the financial statements which were prepared on the basis of cash receipts and disbursements, a basis of accounting other than U.S. generally accepted accounting principles.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City of Hudson's internal control over financial reporting to determine the audit procedures appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Hudson's internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Hudson's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed in the accompanying Schedule of Findings and Questioned Costs, we identified certain deficiencies in internal control we consider to be material weaknesses and significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the City of Hudson's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiency described in Part II of the accompanying Schedule of Findings and Questioned Costs as II-A-15 to be material weaknesses.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control which is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in Part II of the accompanying Schedule of Findings and Questioned Costs as items II-B-15 to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Hudson's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters which are described in Part IV of the accompanying Schedule of Findings and Questioned Costs.

Comments involving statutory and other legal matters about the city's operations for the year ended June 30, 2015 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

City of Hudson's Responses to the Findings

The City of Hudson's responses to findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. The City of Hudson's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing and not to provide an opinion on the effectiveness of the City's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of Hudson during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

Ridihalgh, Fuelling, Snitker, Weber & Co., P.C.

Ridihalgh, Fuelling, Snitker, Weber & Co., P.C.

September 18, 2015

City of Hudson

City of Hudson

Schedule of Findings and Questioned Costs

June 30, 2015

Part I: Summary of the Independent Auditor's Results:

- (a) Unmodified opinions was issued on the financial statements which were prepared on the basis of cash receipts and disbursements, which is a basis of accounting other than U.S. generally accepted accounting principles.
- (b) Significant deficiencies and material weaknesses in internal control over financial reporting were disclosed by the audit of the financial statements.
- (c) The audit did not disclose any non-compliance which is material to the financial statements.

Part II: Findings Related to the Financial Statements:

INTERNAL CONTROL DEFICIENCIES:

II-A-15 Segregation of Duties – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. City of Hudson is a small city with an office staff consisting of only two full time individuals for most of the year and a part time individual part of the year. All employees can have custody of cash before depositing, record cash as received and prepare deposits. One individual receives the bank statement unopened, prepares the bank reconciliation, has a times custody of cash, can prepare bank deposits, and can approve claims for payment.

Recommendation – We realize segregation of duties is difficult with a limited number of office employees. However, the City should review its control procedures to obtain the maximum internal control possible under the circumstances.

Response – The City will review its controls procedures in an attempt to maximum internal control where possible under the circumstances.

Conclusion – Response accepted.

II-B-15 Significant Deficiency – The City of Hudson, Iowa prepares financial statements, but does not employ an accounting staff with the technical expertise to prepare its financial statements (including footnotes disclosures) in accordance with the cash basis of accounting; therefore, it relies on its auditors to prepare such statements.

Management Response – Management feels that having the auditors draft the financial statements and notes is a tolerable situation. Internal financial statements are prepared monthly for reporting and decision

making purposes. The requirements and form of the audited statements are different than the internal needs and change occasionally. Given the size of the organization, it is helpful to rely on the expertise of the auditors to monitor those requirements. Management approves the draft financial statements prior to their issuance.

INSTANCES OF NON-COMPLIANCE

Part III: Findings and Questioned Costs for Federal Awards:

There were no findings and questioned costs for federal awards.

Part IV: Other Findings Related to Statutory Reporting:

IV-A-15 Official Depositories – A resolution naming official depositories has been approved by the City. The maximum deposit amounts stated in the resolution were not exceeded during the year ended June 30, 2015.

IV-B-15 Certified Budget – City disbursements for the year ended June 30, 2015 exceeded the original budgeted amounts before the budget was amended in the Capital Projects fund. Chapter 384.20 of the Code of Iowa states, in part, “Public monies may not be expended or encumbered except under an annual or continuing appropriation.”

In addition the published amended budget transfer amounts did not balance. The amended transfer out amounts were \$2,630,842 and the transfer in amounts totaled only \$86,000.

Recommendation-The budget should have been amended in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget. In addition transfers in and the transfers out on the published budget should be equal.

Response-The budget will be amended in the future, if applicable, and the City will be diligent in the future to be sure that transfers in equal transfers out.

Conclusion-Response accepted.

IV-C-15 Questionable Disbursements – We noted no disbursements that fail to meet the requirements of public purpose as defined in an Attorney General’s opinion dated April 25, 1979.

IV-D-15 Travel Expense – No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

- IV-E-15 Business Transactions – Business transactions between the City and City officials or employees are detailed as follows:

<u>Name, Title and Business Connection</u>	<u>Transaction Description</u>	<u>Amount</u>
Mary Bucy, Library Director, Owner of Bucy Cleaning	Janitorial services	\$5,875

The transaction with the Library Director does not appear to represent a conflict of interest since it was entered into through competitive bidding.

- IV-F-15 Bond Coverage – Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.
- IV-G-15 City Council Minutes-No transactions were found that we believe should have been approved in the City Council minutes but were not.
- IV-H-15 Deposits and Investments – We noted no instances of noncompliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the City's investment policy.
- IV-I-15 Tax Increment Financing (TIF) – Chapter 403.19 of the Code of Iowa provides a municipality may certify loans, advances indebtedness and bonds (indebtedness) to the County Auditor which qualify for reimbursement from increment property tax. The County Auditor provides for the division of property tax to repay the certified indebtedness and provides available incremental property tax in subsequent fiscal years without further certification by the City until the amount of certified indebtedness is paid. We noted no instances of noncompliance with the provisions of Chapter 403.19 of the Code of Iowa.
- IV-J-15 Urban Renewal Annual Report-The latest urban renewal annual report was approved with Resolution #1834 November 10, 2014.
- IV-K-15 Transfers-Resolution #1913 on transfers did not clearly show the transfers actually made. Documentation attached to the resolution was inadequate to determine what transfers should have been. The numbers did not agree with totals on either the resolution or the actual transfers made.
- Recommendation-Resolution should reflect the actual transfers made, showing the amount transferred out as well as the fund transferred from and the fund transferred to.
- Response-In the future the City will detail the amount transferred as well as the fund transferred from and the fund transferred to.
- Conclusion-Response accepted.

Staff

This audit was performed by:

Donald A. Snitker, CPA, Audit Partner

Brent Waters, CPA, Staff

Paul Yokas, Staff